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C O N F I D E N T I A L SECTION 01 OF 02 HANOI 001241

SIPDIS

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SUBJECT: VIETNAM NEGOTIATES DEAL WITH GAZPROM, BYPASSES
EXXONMOBIL

REF: A. (A) HANOI 1128: VIETNAM MAY TERMINATE BP LEASE
[1](#)B. (B) HONG KONG 1812: HONG KONG AND MAINLAND SIGN
ENERGY MOU

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Classified By: AMBASSADOR MICHAEL W. MICHALAK FOR REASONS 1.4 (B) AND (D)

[1](#)1. (C) SUMMARY: State-run PetroVietnam (PVN) and Russian energy firm Gazprom signed a lease agreement for four blocks in the South China Sea. ExxonMobil (EM) had been in periodic discussions with PVN for more than a year to negotiate a deal for the new acreage before PVN unexpectedly awarded the blocks to Gazprom. ExxonMobil, however, sees no concerted effort by Vietnam to move away from U.S. energy companies toward state-run multinationals or firms with lesser interests in China. Separately, EM said it did not view China's recent deal to supply natural gas to Hong Kong, dashing a long-standing effort by EM to build a natural gas facility offshore Hong Kong, as an effort to punish EM for its activity in the South China Sea. End Summary.

[1](#)2. (SBU) State-run PetroVietnam and Russian state-owned energy firm Gazprom signed a 30-year lease agreement on October 27, 2008 for four blocks in the South China Sea. The signing, witnessed by Russian President Dmitry Medvedev and Vietnamese President Nguyen Minh Triet during Triet's visit to Moscow, allows Vietgazprom, the joint operating company of Gazprom and PVN, to explore for oil and gas in blocks 129-132, which lie 350 kilometers southeast of Ho Chi Minh City in disputed waters claimed by China.

[1](#)3. (SBU) ExxonMobil Vietnam's Russ Berkoben told Econoff on October 31 that EM had been in periodic discussions with PVN for more than a year to negotiate a deal for the new acreage before PVN unexpectedly awarded the blocks to Gazprom. EM holds a lease in four nearby blocks (156-159) and three blocks offshore central Vietnam (117-119) and had hoped to leverage its deepwater experience to sign a deal for the new acreage.

[1](#)4. (SBU) Berkoben said EM was disappointed but not surprised to learn that PVN had concluded a bilateral deal with Gazprom, whose interests in China are far less than EM's. A day after the Vietgazprom agreement, Chinese Prime Minister Wen Jiabao and Russian Prime Minister Vladimir Putin cemented further Sino-Russo energy cooperation by signing a long-awaited deal to link Russia and China via oil pipeline. Under the new agreement, Russia will ship 15 million tons of crude oil annually to China in exchange for substantial Chinese loans.

15. (C) China has warned EM on several occasions about its activity in the South China Sea -- most recently in June 2008. Berkoben pointed out, however, that mid and lower-level Chinese government officials in Washington and Houston rather than high-ranking officials in Beijing had often delivered the protests and that the demarches had at times seemed "routine." Nevertheless, EM is now interested in whether China will continue this activity by lodging a protest with Gazprom or the Russian government over the new deal, he said.

16. (C) Berkoben said that PVN and GVN officials continue to express optimism about Vietnam's business relationship with EM. Despite the Gazprom deal, he said EM saw no concerted effort by the GVN to move away from U.S. energy companies toward state-run multinationals or firms with lesser interests in China. (Comment: this theory may be put to the test in December 2008 when BP's lease in nearby block 5-3 expires. A BP executive, Luke Keller, recently told the Ambassador that the GVN, exasperated over project delays caused by China, might not renew BP's license when it expires (REF B). Keller speculated that the GVN could instead award the concession to a multinational firm without significant energy interests in China. End comment).

17. (SBU) In addition to the new Vietgazprom deal, Russia and China created a new venture, Gazpromviet, to explore in Russia and third countries. An official from the Russian Embassy in Hanoi told us in May 2008 that Russia hoped the new deal would rival the highly profitable Vietsovpetro venture from the 1980s that brought thousands of oil workers to Vietnam and has generated a steady stream of revenue for Russian partner Zarubezhneft.

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18. (C) Separately, Berkoben characterized a recent agreement by China to supply natural gas to Hong Kong for 20 years as "business as usual" (REF A). Although the last-minute deal dashed a long-standing ExxonMobil effort to build a USD 1 billion dollar liquid natural gas facility offshore Hong Kong, Berkoben said EM did not view the move by China as an effort to punish the company for its activity in the South China Sea.

19. (SBU) Berkoben said that EM is currently negotiating with PVN and the GVN to incorporate EM's seven South China Sea blocks, all of which are still in the preliminary phase, under a general framework agreement. The framework would fix contractual terms along the entire EM hydrocarbons value chain, from the upstream production-sharing contract to the mid- and downstream transport, refining and retail sectors, in an effort to avoid future contract deviations.
MICHALAK